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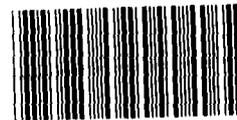
Testimony

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Agricultural Trade Legislation:
Title VI, H.R.3

Statement of
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Before the
House Committee on Agriculture



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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss with you our views on Title VI of H.R.3, the agricultural trade title of the Trade and International Economic Policy Reform Act of 1987.

The proposed Title VI would significantly restructure and reorient the U.S. Department of Agriculture in its management of agricultural trade. It is derived principally from the final report of the National Commission on Agricultural Trade and Export Policy, which concluded in July 1986 that agricultural trade policy and programs should be given a higher priority, both within and outside the Department of Agriculture and that the Department should be reorganized to reflect that priority.

We agree with the general thrust of the Commission's conclusion, but the recommended reorganization embodied in H.R.3 Title VI may be more extensive than necessary to achieve the desired objectives. Because of its comprehensive nature, Title VI will affect many agencies, interest groups, and U.S. policies, raising valid questions about its practicality and desirability. We believe that many of the Commission's concerns as embodied in Title VI can be adequately addressed within the existing agricultural trade organization structure. The reorganization proposed in this legislation, at least in the short term could create significant confusion and detract from, rather than enhance, U.S. agricultural trade competitiveness. We believe that the objective of the Commission's final conclusions can be met through

a series of adjustments within the existing organizational framework.

PROPOSED ORGANIZATIONAL CHANGES

We would now like to address some of the more prominent features of the proposed legislation. It is unclear whether designation of the Department of Agriculture as lead agency within the executive branch for agricultural trade and trade policy will cause higher priority to be given to these areas. The Secretary is currently a member of the cabinet-level Economic Policy Council and the Trade Negotiating Committee. The Under Secretary of Agriculture for International Affairs and Commodity Programs is a member of the Trade Policy Review Group, and a senior departmental official represents Agriculture on the Trade Policy Staff Committee.

It is also important to note that the Secretary and Under Secretary played important roles in recent agricultural trade bilateral negotiations with the European Community and other major agricultural competitors. Furthermore, during the September 1986 GATT ministerial meeting which launched the Uruguay round of multilateral trade negotiations, the Secretary of Agriculture conducted the negotiations on agriculture trade and agricultural trade interests received a high priority. Therefore, we believe that designating the Department of Agriculture as lead agency for agricultural trade and trade policy matters is unnecessary. Furthermore, there are situations where it would be inappropriate

for the Department to be lead agency when other domestic and foreign policy considerations might have equal or greater priority.

The Secretary of Agriculture, through the existing interagency process, has an appropriate and viable mechanism for coordinating agricultural trade related programs. Therefore, a new vehicle for interagency consultation as called for in the legislation is not necessary.

We believe the proposed transfer of the International Economic Division of the Economic Research Service (ERS) and the World Outlook Board of the Department of Agriculture to the Department's Foreign Agricultural Service (FAS) would not be desirable. Although it is clear that FAS needs more analytical capability and that there is little or no communication or coordination between the International Economic Division and the FAS at this time, transferring the Division and its 178 staff years and \$7.8-million budget is not the best way to remedy the problem. It should be noted that a reorganization is currently underway within the ERS that will terminate the International Economic Division and place its resources in two other units, the Commodity Economics Division and the Agriculture and Trade Analysis Division.

Transferring the international economic analysis functions of the ERS would seriously affect its ability and that of the Assistant Secretary of Agriculture for Economics to conduct integrated, long-term, and independent economic research on international agriculture. It would also further undermine ERS' capability to make global commodity estimates and forecasts. The

programmatic orientation of FAS could also compromise the independence of ERS' international analysts and could result in self-serving assessments of international agricultural issues, which would contradict the basic rationale for the transfer.

Clearly, a closer working relationship between ERS and FAS is necessary. An improved working relationship between the two within the existing organizational framework would be a preferred course of action. FAS could use the analytical capability of the ERS international staff while at the same time preserving ERS' independence.

The proposed replacement of the current Under Secretary of Agriculture for International Affairs and Commodity Programs with two Under Secretaries, one for trade and international affairs and the other for commodity programs, severs a critical natural link between international and domestic programs that is served by having one Under Secretary responsible for such interrelated areas. The events of recent years attest to the importance of the relationship between domestic and international agricultural issues and the need to have a single authority responsible for both within the Department. Separation of responsibility for trade and domestic commodity programs could create new policy and program coordination problems.

The creation of two additional Assistant Secretaries to assist the proposed Under Secretary of Trade and Under Secretary for Commodity Programs creates an additional level to the existing

hierarchy and appears to conflict with the objective of improving the effectiveness and efficiency of the decision-making process.

The proposed establishment of a General Sales Manager's Office, under the Under Secretary for Trade, with responsibilities for export sales, market development, agricultural trade offices, and Public Law 480 Titles I and III seems unnecessary in light of the fact that the current General Sales Manager, who also has the title of Associate Administrator of FAS, already has responsibility for managing these programs within the existing FAS organizational structure. A 1979 Directive of the Secretary of Agriculture provides for the General Sales Manager to report directly to the Secretary, through the Under Secretary for International Affairs and Commodity Programs, on policy matters related to Commodity Credit Corporation and Public Law 480 programs. That same directive authorizes the General Sales Manager to report to the Administrator of FAS on policy matters related to market development programs.

The 1985 Food Security Act requires the Secretary of Agriculture to report to the Congress on other countries' programs that provide direct or indirect support for agricultural exports and that impede the entry of U.S. agricultural exports. This report is also to identify U.S. agricultural export opportunities. Title VI proposes the establishment of an office to continuously monitor the trade practices of foreign competitors and to report quarterly to the Secretary, who would in turn report to the Congress. The Secretary's report to the Congress would include

findings and recommendations with respect to the level of subsidies provided by other nations and the United States to promote the export of agricultural commodities. We believe it is unnecessary to establish a separate office to monitor and report on such matters. The current reporting practices could easily be modified to incorporate findings and recommendations as provided for in Title VI.

The provision in Title VI of H.R. 3 that the Secretary provide technical assistance to the U.S. Trade Representative on agricultural trade issues and negotiations seems unnecessary, given the assistance which the Secretary already provides through the existing interagency system with the help of FAS.

We believe that establishing an Office of Agricultural Trade Policy Planning and Evaluation, responsible for developing effective agricultural trade strategies and reporting annually to the Congress could serve a useful purpose. It should be assisted by the international staff of ERS and its evaluation function should include periodically assessing all U.S. agricultural export programs, and the Department should ensure the evaluations are objective and independent.

We also support the proposed declaration of policy concerning food aid and market development and the establishment of an Office of Food Aid Policy within Agriculture. Food aid and agricultural export programs need to be coordinated more effectively.

PROPOSED USE OF SURPLUS COMMODITIES FOR COOPERATOR PROGRAM

In Title VI, the proposed use of Commodity Credit Corporation (CCC) commodities by cooperators for projects designed to expand markets for U.S. agricultural commodities raises some questions. There are limitations to the use of these commodities and it is unclear how many cooperators could participate in such projects, how cooperators would qualify to participate, and how commodities would be allocated among cooperators. Furthermore, if the definition of "commodities" is expanded to include "generic certificates," then additional questions must be raised concerning the use of the certificates by cooperators for market development activities.

Under the current Targeted Export Assistance (TEA) program, generic certificate holders are selling the certificates for greater than face value and there are some preliminary indications that not all premiums are being used for approved market development activities. In our recent review of generic certificates, we found that certificates were being sold for premiums of 10 to 15 percent.

PROPOSED CHANGES IN EXPORT ENHANCEMENT PROGRAM

Title VI of H.R.3 would amend Section 1127(b) of the Food Security Act of 1985 to read that the Secretary of Agriculture shall give priority to all interested foreign purchasers who have traditionally purchased U.S. agricultural commodities or continue or begin to purchase such commodities in quantities equal or greater than those of a previous period. It should be noted that

similar language in the Food Security Act may appear to give the Secretary of Agriculture more discretion, stating that the Secretary shall consider for participation all interested foreign purchasers, giving priority to those who have traditionally purchased U.S. agricultural commodities and who continue to purchase such commodities on an annual basis in quantities greater than those of a previous representative period.

During our review of the Export Enhancement Program, we found that the Secretary of Agriculture did, in fact, use such discretion. Foreign purchasers who had traditionally purchased U.S. agricultural commodities (such as Japan and Korea in the case of wheat) were not made eligible under the program. One could argue that these were not interested foreign purchasers; i.e., they did not formally petition the Department of Agriculture or the administration to be made eligible (targeted) under the program. It appears that these countries have continued to purchase wheat and other agricultural commodities from the United States, despite higher U.S. prices, in part because of preference for U.S. products but also because of U.S. political leverage. The huge trade imbalances between each of these countries and the United States would have made it difficult for them to ask the United States to subsidize its agricultural exports to them.

Although the Soviet Union failed to purchase 4 million metric tons of wheat from the United States for the year ending September 30, 1985, as required under the Long Term Agreement between the two countries, it had in past years been the largest traditional

purchaser of U.S. wheat. Nonetheless, the Soviet Union was not targeted under the Export Enhancement Program until August 1, 1986, and then with less attractive terms than those offered to other targeted countries. The Secretary of Agriculture might well have wished to target the Soviet Union earlier, but there was strong opposition from other members of the Economic Policy Council, including the Secretary of State, and from the Secretary of Defense. Clearly, foreign policy concerns and the influence of other agencies limited the Secretary's ability to target this traditional customer.

Although the language in Title VI appears to give the Secretary of Agriculture stronger instructions for targeting traditional customers by eliminating the words "consider for participation," foreign policy concerns and the influence of other agencies probably would continue to play a significant role in determining countries to be targeted under the Export Enhancement Program.

We believe that the Secretary of Agriculture was correct in not targeting traditional customers, such as Japan and Korea, to the extent that they continued to make commercial sales of wheat from the United States without the Export Enhancement Program. To have targeted these countries instead of countries such as Morocco or Algeria, which without the Program clearly would have bought wheat from the European Community, would have been an inefficient and costly use of the bonus commodities available under the Program. To have targeted Japan and Korea, as well as Morocco and

Algeria, might well have resulted in all bonus commodities available under the program being used up at an early date.

In this regard, Title VI does not change the total value of commodities to be used in implementing the Export Enhancement Program. As amended by the Food Security Improvements Act of 1986, this amount was set at not less than \$1 billion nor more than \$1.5 billion. Even if the Department of Agriculture uses the market value method, rather than the book value method, it appears that the \$1.5 billion will be used if the Program continues at the current pace. We believe that the Congress needs to address the issue of the adequacy of the amount of bonus commodities available under the Program, and it does not do so in Title VI.

BARTER PROGRAM PROVISIONS OF FOOD SECURITY ACT OF 1985

Title VI notes that it is the sense of Congress that the Secretary of Agriculture should expedite the implementation of provisions of the Food Security Act of 1985 relating to the barter of agricultural commodities. During our recently completed review of alternative grain trading practices, we found problems with the implementation of the barter provisions which need to be addressed.

Section 1129 of the Food Security Act had provided for a pilot barter program to be carried out during fiscal years 1986 and 1987 with at least two nations which have food and currency reserve shortages. Surplus CCC commodities were to be bartered for strategic or other materials not produced by the United States in amounts sufficient for its requirements and for which it does not

meet national stockpile reserves or goals established by law. Normal commercial trade channels were to be used and commercial marketings were not to be disrupted.

Section 1167 of the Food Security Act amended the CCC Charter Act to provide that if the strategic petroleum reserve falls below prescribed levels, and upon request from the Secretary of Energy, the CCC must, to the maximum extent practicable and with approval from the Secretary, make available CCC commodities worth at least \$300 million to barter for petroleum products, including crude oil. This section also requires that the Secretary of Agriculture provide technical assistance regarding bartering agricultural commodities and products to U.S. exporters who request such assistance.

As reported to Congress on January 2, 1987, by the Secretary of Agriculture, no agreements had been concluded for the pilot barter program. Agriculture stated in its report that it intended to continue with efforts to initiate substantive discussions with several countries that have food and currency reserve shortages and offer potential for obtaining strategic minerals.

In more recent discussions, Agriculture officials reiterated that the Department could not report any progress on barter initiatives; however, they emphasized their commitment to complete the projects. Complications regarding division of program authority, agency coordination, and reimbursement between federal agencies involved in potential barter transactions have contributed to the lack of action. Additionally, there have been problems in

identifying the appropriate combination of eligible countries and acceptable commodities. Agriculture officials reported that they had met on several occasions with representatives of Energy and the General Services Administration but have not reached agreement on a means for carrying out the provisions of the law.

ADDITIONAL OBSERVATIONS

Mr. Chairman, although the reductions in loan rates and the new export programs of the Food Security Act of 1985 were designed to increase U.S. agricultural competitiveness, more can be done. Improved management of export promotion and foreign market development activities within the existing structure of FAS would be desirable. More emphasis on market development, better coordination of traditional and newly established export programs and activities, better program evaluation, greater flexibility in the use of agricultural attaches, more emphasis on new markets and value-added commodities, an expanded effort to respond to product quality problems, and the establishment of a broad-based publicly accessible export market development advisory committee appear to be positive responses to increased foreign competition. In addition, it may be necessary to increase funding for trade shows and exhibitions, general management support of export programs, and additional personnel. It is clear that the many new export programs of the 1985 Food Security Act have challenged the adequacy of existing FAS resources.

Mr. Chairman, this concludes my statement. I'll be happy to answer any questions you may have.